

**STATEMENTS OF CASH FLOWS**

	Dollars in Thousands		
	For the Years Ended December 31,		
	1991	1990	1989
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss) .....	\$( 22,477)	\$217,343	\$173,247
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	305,377	293,004	302,934
Cumulative effect of change in accounting principle .....	257,874	-	-
Provision for uncollectibles .....	15,059	19,431	6,238
Allowance for funds used during construction .....	(8,394)	(8,330)	(8,509)
Deferred income taxes, net .....	8,556	17,366	24,181
Other items, net .....	758	2,015	13,698
Changes in certain assets and liabilities:			
Accounts receivable .....	(16,733)	(4,059)	(36,852)
Material and supplies .....	956	(6,272)	332
Prepaid expenses .....	247	5,856	(8,183)
Deferred charges and other .....	(8,879)	(8,412)	(3,985)
Accounts payable and accrued expenses .....	9,300	(3,433)	65,906
Unamortized investment tax credits .....	(10,022)	(8,749)	(13,395)
Advanced billing and customer deposits .....	(2,056)	(1,807)	(1,337)
Other liabilities .....	4,160	(15,956)	22,226
Net cash provided by operating activities .....	<u>533,726</u>	<u>497,997</u>	<u>536,501</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to plant, property and equipment ...	(388,844)	(398,380)	(426,244)
Other plant-related changes .....	<u>(2,206)</u>	<u>(453)</u>	<u>(5,432)</u>
Net cash used in investing activities .....	<u>(391,050)</u>	<u>(398,833)</u>	<u>(431,676)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term debt .....	100,000	-	50,000
Decrease in short-term debt .....	-	-	(26,000)
Principal repayments of long-term debt and capital lease obligations .....	(2,027)	(17,806)	(94,571)
Net (decrease) increase in note payable to affiliate .....	(53,962)	76,082	91,190
Dividends paid .....	<u>(190,750)</u>	<u>(153,377)</u>	<u>(125,444)</u>
Net cash used in financing activities .....	<u>(146,739)</u>	<u>(95,101)</u>	<u>(104,825)</u>
NET (DECREASE) INCREASE IN CASH .....	(4,063)	4,063	-
CASH, BEGINNING OF YEAR .....	<u>4,063</u>	<u>-</u>	<u>-</u>
CASH, END OF YEAR .....	<u>\$ -</u>	<u>\$ 4,063</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PRESENTATION** - The Chesapeake and Potomac Telephone Company of Maryland (the Company), a wholly-owned subsidiary of Bell Atlantic Corporation (Bell Atlantic), maintains its accounts in accordance with the Uniform System of Accounts (USOA) prescribed by the Federal Communications Commission (FCC) and makes certain adjustments necessary to present the accompanying financial statements in accordance with generally accepted accounting principles applicable to regulated entities. Such principles differ in certain respects from those used by unregulated entities, but are required to appropriately reflect the financial and economic impacts of regulation and the ratemaking process. Significant differences resulting from the application of these principles are disclosed elsewhere in these Notes to Financial Statements where appropriate.

**CASH** - The Company makes certain payments by draft and records such drafts as accounts payable until such time as the banks have presented them for payment.

The Company also manages certain of its cash requirements by use of concentration and zero-balance bank accounts which routinely result in negative cash balances on the books of account.

**MATERIAL AND SUPPLIES** - New and reusable materials are carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

**PLANT AND DEPRECIATION** - The Company's provision for depreciation is based principally on the remaining life method of depreciation and straight-line composite rates. This method provides for the recovery of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining service lives authorized by federal and state regulatory authorities. Depreciation expense also includes amortization of certain classes of telephone plant and certain identified depreciation reserve deficiencies over periods authorized by regulatory authorities.

When depreciable plant is replaced or retired, the amounts at which such plant has been carried in plant, property and equipment accounts are removed from the respective accounts and charged to accumulated depreciation, and any gains or losses on disposition are amortized over the remaining service lives of the remaining net investment in telephone plant.

**MAINTENANCE AND REPAIRS** - The cost of maintenance and repairs of plant, including the cost of replacing minor items not constituting substantial betterments, is charged to operating expense.

**ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION** - Regulatory authorities allow the Company to record an allowance for funds used during construction, which includes both interest and equity return components, as a cost of plant and as an item of other income. Such income is not recovered in cash currently but will be recoverable over the service life of the plant through higher depreciation expense recognized for regulatory purposes.

## EMPLOYEE RETIREMENT BENEFITS

**PENSION PLANS** - Substantially all employees of the Company are covered under noncontributory multiemployer retirement plans sponsored by Bell Atlantic and its subsidiaries, including the Company. Amounts contributed to the Company's pension plans are actuarially determined under the aggregate cost method, and are subject to applicable federal income tax regulations.

**POSTRETIREMENT BENEFITS OTHER THAN PENSIONS** - Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date the employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging costs to expense as they were incurred. The cost of health benefits for management and other associates retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

The Company makes contributions to a retiree health care trust for associate employees. Contributions to the trust are determined principally under the aggregate cost actuarial method and are limited to amounts permitted under Internal Revenue Service (IRS) rules for determining tax deductible contributions.

The Company annually funds an amount for life insurance benefits that is determined using the aggregate cost actuarial method.

**INCOME TAXES** - Bell Atlantic and its domestic subsidiaries, including the Company, file a consolidated federal income tax return. The consolidated income tax currently payable is allocated in accordance with each subsidiary's contribution to consolidated taxable income and tax credits.

Certain of the Company's revenue and expense measurement policies used for financial accounting purposes differ from those used for income tax purposes. Deferred income taxes are provided for such differences (to the extent permitted for ratemaking purposes), primarily those pertaining to accelerated depreciation on utility property additions and the timing of the deductibility of expenses related to postretirement benefits other than pensions.

The Tax Reform Act of 1986 repealed the investment tax credit (ITC) as of January 1, 1986, subject to certain transitional rules. Realized ITCs were deferred and are being amortized to income over the estimated service lives of the related assets.

**RECLASSIFICATIONS** - Certain reclassifications of prior years' data have been made to conform to 1991 classifications.

(2) LONG-TERM DEBT

Long-term debt consists principally of debentures issued by the Company. Interest rates and maturities of the amounts outstanding at December 31 are as follows:

	<u>Dollars in Thousands</u>	
	<u>1991</u>	<u>1990</u>
Five year 10 1/4%, due 1992 .....	\$100,000	\$100,000
Thirty-six year 4 1/8%, due 1993 .....	30,000	30,000
Forty year 3 1/4%, due 1995 .....	25,000	25,000
Thirty-nine year 4 3/8%, due 2002 .....	50,000	50,000
Thirty-seven year 5 7/8%, due 2004 .....	60,000	60,000
Forty year 6 5/8%, due 2008 .....	75,000	75,000
Thirty-five year 8 7/8%, due 2009 .....	100,000	100,000
Forty year 7 1/4%, due 2012 .....	50,000	50,000
Forty year 9%, due 2018 .....	125,000	125,000
Forty year 9 1/8%, due 2026 .....	245,000	245,000
Forty year 8%, due 2029 .....	50,000	50,000
Forty year 8.3%, due 2031 .....	<u>100,000</u>	<u>-</u>
	1,010,000	910,000
Capital lease obligations, average rate 11.24% and 10.32% .....	28,021	27,696
Other .....	1,694	1,753
Unamortized discount and premium - net .....	<u>(19,999)</u>	<u>(20,736)</u>
	1,019,716	918,713
Less maturing within one year .....	<u>102,401</u>	<u>2,545</u>
Total .....	<u>\$ 917,315</u>	<u>\$916,168</u>

Long-term debt outstanding at December 31, 1991 includes \$760,000,000 which is callable by the Company. The call prices of these debentures range from 107.1% to 100.0% of face value, depending on the remaining life to maturity of the issue. In addition, long-term debt includes \$100,000,000 and \$50,000,000 which will become redeemable only on August 1, 1996 and October 15, 1996, respectively, at the option of the security holders. The redemption prices of these debentures will be 100.0% of face value plus accrued interest.

On August 1, 1991, the Company sold \$100,000,000 of 8.3% debentures, due August 1, 2031. These debentures are not callable by the Company but are redeemable at the option of the security holders on August 1, 1996.

As of December 31, 1991, the Company has an outstanding shelf registration for the issuance of up to \$200,000,000 of debt securities which was filed with the Securities and Exchange Commission (SEC) on November 8, 1990.

(3) DEBT MATURING WITHIN ONE YEAR

Debt maturing within one year consists of the following at December 31:

	<u>Dollars in Thousands</u>			<u>Weighted Average Interest Rates *</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>
Notes payable to affiliate	\$113,310	\$167,272	\$ 91,190	5.02%	7.89%	9.48%
Long-term debt maturing						
within one year .....	100,063	59	54			
Capital lease obligations	<u>2,338</u>	<u>2,486</u>	<u>1,841</u>			
Total .....	<u>\$215,711</u>	<u>\$169,817</u>	<u>\$ 93,085</u>			
Average amounts of notes						
payable outstanding						
during the year* .....	\$159,316	\$103,965	\$ 11,532	6.16%	8.16%	9.12%
Maximum amounts of notes						
payable at any month-end						
during the year .....	\$238,689	\$167,272	\$ 91,190			

\* Amounts represent average daily face amounts of notes. Weighted average interest rates are computed by dividing such amounts into the aggregate related interest expense.

At December 31, 1991, the Company had an unused line of credit balance of \$134,980,000 with an affiliate, Bell Atlantic Network Funding Corporation (BANFC). (See Note (12) of Notes to Financial Statements.)

(4) ACCOUNTING FOR RESTRUCTURING AND OTHER CHARGES

In 1991, Bell Atlantic and the Company offered retirement incentive programs to eligible management and associate employees electing early retirement. Approximately 450 management and associate employees retired from the Company under these programs. As a result, income before extraordinary item and cumulative effect of change in accounting principle for 1991 was reduced by \$6,427,000 for special termination benefits, restructure, and related costs. These costs are included as operating expenses in the Statement of Income.

Net income for 1989 was reduced by \$12,837,000 as a result of costs associated with special severance and enhanced early retirement programs for management employees, and the consolidation of certain Company facilities. These costs are included as operating expenses in the Statement of Income. In addition, costs associated with the early retirement of debentures reduced net income for 1989 by \$8,203,000.

As a result of labor negotiations completed in 1989, the Company established a retiree health care trust for associate employees. In connection with the establishment of the trust, the Company changed its method of accounting for postretirement health care benefits for these employees from a pay-as-you-go basis to an actuarially determined accrual basis, effective January 1, 1989. This change in accounting reduced net income for 1989 by \$13,097,000.

(5) LEASES

The Company has entered into both capital and operating leases for facilities and equipment used in operations. In 1991, 1990 and 1989, the Company incurred initial capital lease obligations of \$2,606,928, \$5,977,000 and \$842,000, respectively.

Total rent expense amounted to \$53,977,000 in 1991, \$47,609,000 in 1990 and \$44,289,000 in 1989.

At December 31, 1991, the aggregate minimum rental commitments under noncancelable leases for the periods shown were approximately as follows:

<u>Years</u>	<u>Dollars in Thousands</u>	
	<u>Capital Leases</u>	<u>Operating Leases</u>
1992	\$ 5,389	\$13,662
1993	5,024	11,554
1994	4,533	7,944
1995	3,305	6,827
1996	3,258	5,921
Thereafter	<u>37,813</u>	<u>14,806</u>
Total	59,322	<u>\$60,714</u>
Less imputed interest and executory costs	<u>31,301</u>	
Present value of net minimum lease payments	28,021	
Less current installments	<u>2,338</u>	
Long-term obligation at December 31, 1991	<u>\$25,683</u>	

The Chesapeake and Potomac  
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(6) INCOME TAXES

The components of operating income tax expense are as follows:

	Dollars in Thousands		
	Years Ended December 31.		
	1991	1990	1989
Federal:			
Current .....	\$105,877	\$ 90,358	\$ 55,602
Deferred, net .....	6,215	7,214	22,157
Investment tax credits .....	(9,869)	(8,749)	(13,395)
	<u>102,223</u>	<u>88,823</u>	<u>64,364</u>
State:			
Current .....	9,171	3,077	6,947
Deferred, net .....	2,341	4,890	2,025
	<u>11,512</u>	<u>7,967</u>	<u>8,972</u>
Total .....	<u>\$113,735</u>	<u>\$ 96,790</u>	<u>\$ 73,336</u>

Income tax expenses (benefits) which relate to non-operating income and expense included in Other Income - Miscellaneous - net were \$371,000, \$2,260,000 and (\$473,000) in 1991, 1990 and 1989, respectively. The deferred tax benefit related to the cumulative effect of the change in accounting principle was \$143,604,000 in 1991. The income tax benefit related to the loss on early extinguishment of debt was \$4,557,000 in 1989.

The components of deferred income tax expense are as follows:

	Dollars in Thousands		
	Years Ended December 31.		
	1991	1990	1989
Accelerated depreciation .....	\$ 17,652	\$ 28,775	\$ 31,749
Employee benefits .....	(3,725)	(6,059)	(1,876)
Other, net .....	(5,371)	(10,612)	(5,691)
Total .....	<u>\$ 8,556</u>	<u>\$ 12,104</u>	<u>\$ 24,182</u>

The provision for income taxes varies from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes, extraordinary item and cumulative effect of accounting change. The difference is attributable to the following factors:

	Years Ended December 31,		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Statutory federal income tax rate .....	34.0%	34.0%	34.0%
Amortization of investment tax credits .	(2.4)	(2.8)	(5.4)
State income taxes, net of federal income tax benefits .....	2.2	1.7	2.4
Benefit of rate differential applied to reversing timing differences .....	(2.3)	(3.9)	(3.2)
Reversal of previously capitalized taxes and payroll-related construction costs	1.7	2.2	3.4
Prior year's tax adjustment .....	-	(.8)	(2.7)
Other differences, net .....	<u>(.7)</u>	<u>(.1)</u>	<u>.1</u>
Effective income tax rate before extraordinary item and cumulative effect of change in accounting principle .....	<u>32.5%</u>	<u>30.3%</u>	<u>28.6%</u>

As a result of the adoption, effective January 1, 1988, of the revised USOA prescribed by the FCC, deferred taxes must be provided for interstate ratemaking purposes on all future book/tax timing differences. Prior to 1988, the Company did not record deferred taxes on timing differences for which deferred tax expense was not allowed for ratemaking purposes.

The cumulative net amount of income tax timing differences for which deferred taxes have not been provided pursuant to the ratemaking process was approximately \$118,686,000 and \$132,041,000 at December 31, 1991 and 1990, respectively. These timing differences principally relate to the allowance for funds used during construction and certain taxes and payroll-related construction costs which were capitalized for financial statement purposes, but were deducted currently for income tax purposes, net of applicable depreciation.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109) in February 1992. The Company will be required to adopt Statement No. 109 by 1993. Statement No. 109 will require the calculation of deferred taxes using the liability method. Under the liability method, deferred tax balances must be adjusted to reflect enacted changes in income tax rates and deferred taxes must be provided on all book/tax basis differences.



Presently, deferred taxes are recorded at income tax rates that were in effect at the time the related timing difference arose. In addition, regulated companies only record deferred taxes on timing differences which regulators recognize in the ratemaking process. Since regulators have not changed the manner in which these tax effects are treated for ratemaking purposes, when Statement No. 109 is adopted, the income effects of the required adjustments to deferred tax balances will be recorded on the balance sheet as regulatory assets or liabilities in accordance with Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (Statement No. 71). Absent changes in the regulatory treatment of deferred taxes, there will be no material impact on net income upon adoption of Statement No. 109.

Prior to 1984, the Company was included in AT&T's consolidated federal income tax returns. These returns have been examined by the Internal Revenue Service (IRS), and all issues, including the summary assessment issue discussed below, have been settled.

During 1987, the IRS made a summary assessment requiring Bell Atlantic's telephone subsidiaries to pay a total of approximately \$65,000,000 in tax and interest related to certain contested issues for the years 1979 and 1980. This payment (\$9,500,000 of which was the Company's share) has been recorded as a current deferred charge. In January 1992, the Company was officially notified that the IRS has decided the issues as proposed by Bell Atlantic, and a refund of the summary assessment is expected in 1992.

#### (7) EMPLOYEE BENEFITS

**PENSION PLANS** - Substantially all of the Company's management and associate employees are covered under noncontributory multiemployer pension and death benefit plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The pension benefit formula is based on a flat dollar amount per year of service according to job classification under the plan for associate employees and a stated percentage of adjusted career average income under the plans for management employees. The Company's objective in funding the plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, U.S. Government and corporate debt securities, and real estate.

Aggregate pension costs for the plans are as follows:

	Dollars in Thousands		
	Years ended December 31.		
	1991	1990	1989
Current year cost	<u>\$15.143</u>	<u>\$16.148</u>	<u>\$16.316</u>
Percentage of salaries and wages	<u>4.0%</u>	<u>4.1%</u>	<u>4.2%</u>

The decrease in pension costs for the year ended December 31, 1991 over the same period in 1990 was primarily due to changes in plan provisions, actuarial assumptions, and demographic and investment experience. During 1991, the Company offered retirement incentive programs to eligible management and associate employees

electing early retirement. Special termination benefits of \$773,000 attributable to employees retiring in 1991 under these programs partly offset the decrease. The decrease in 1990 pension cost over the same period in 1989 was primarily due to reductions in the number of employees due to restructure and the force management program of 1989, offset by changes in plan provisions, actuarial assumptions, and demographic and investment experience.

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (Statement No. 87) requires a comparison of the actuarial present value of projected benefit obligations with the fair value of plan assets, the disclosure of the components of net periodic pension costs and a reconciliation of the funded status of the plans with amounts recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the projected benefit obligation was 7.75% at December 31, 1991 and 8.0% at December 31, 1990. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991 and 1990. The expected long-term rate of return on plan assets used to calculate pension cost was 7.5% for 1991, 1990 and 1989.

In the past, the Company has entered into labor negotiations with the unions representing certain employees and expects to do so in the future. Pension benefits have been included in these negotiations and improvements in benefits have been made from time to time. Additionally, the Company has amended the benefit formula under pension plans maintained for its management employees. Expectations with respect to future amendments to the Company's pension plans have been reflected in determining the Company's pension cost under Statement No. 87.

**POSTRETIREMENT BENEFITS OTHER THAN PENSIONS** - Effective January 1, 1991, the Company has adopted Statement No. 106. Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date the employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Company elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets and recognized accrued postretirement benefit cost (transition obligation) in the amount of \$401,478,000, net of a deferred income tax benefit of \$143,604,000. On December 26, 1991, the FCC released an order permitting adoption of Statement No. 106 on or before January 1, 1993. The FCC order permits amortization of the transition obligation over the average remaining service period of active employees for interstate regulatory accounting purposes. Pursuant to

Statement No. 71 a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment.

Substantially all of the Company's management and associate employees are covered under postretirement health and life insurance benefit plans sponsored by Bell Atlantic and certain of its subsidiaries, including the Company. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on annual basic pay at retirement.

The Company funds for postretirement health benefits for associate employees and postretirement life insurance benefits for management and associate employees. The Company's objective in funding these plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, and U.S. Government and corporate debt securities.

In 1991, the aggregate cost of postretirement health and life insurance benefits was \$31,812,000. During 1990 and 1989, the cost of postretirement health care benefits was \$29,107,000 and \$35,776,000, respectively.

Statement No. 106 requires a comparison of the actuarial present value of the accumulated postretirement benefit obligation with the fair value of plan assets, the disclosure of the components of the net periodic postretirement benefit cost, and a reconciliation of the funded status of the plans with the amount recorded on the balance sheet. Such disclosures are not presented for the Company because the structure of the Bell Atlantic plans does not allow for the determination of this information on an individual company basis.

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.75% at December 31, 1991. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991. The expected long-term rate of return on plan assets was 7.50% for 1991. The medical cost trend rate in 1991 was approximately 15.0%, grading down to an ultimate rate in 2003 of approximately 5.0%. The dental cost trend rate in 1991 and thereafter is approximately 4.0%.

Certain postretirement benefits other than pensions have been included in labor negotiations described above and such benefits have been modified from time to time. Additionally, the Company has amended the benefits under postretirement benefit plans maintained for its management employees. Expectations with respect to certain future amendments to the Company's postretirement benefit plans have been reflected in determining the Company's postretirement benefit cost under Statement No. 106.

(8) SUPPLEMENTAL CASH FLOW AND ADDITIONAL FINANCIAL INFORMATION

	Dollars in Thousands		
	1991	1990	1989
Supplemental cash flow information:			
Interest paid .....	<u>\$ 87,115</u>	<u>\$84,950</u>	<u>\$86,550</u>
Income taxes paid .....	<u>\$105,243</u>	<u>\$82,986</u>	<u>\$66,202</u>
Additional financial information:			
Depreciation as a percentage of average depreciable plant .....	<u>6.27%</u>	<u>6.34%</u>	<u>6.93%</u>
Other operating taxes:			
Property .....	\$ 43,975	\$48,688	\$48,143
Gross receipts .....	24,754	24,235	23,359
Capital stock .....	20,935	15,021	11,869
Other .....	6,699	4,170	4,061
Total .....	<u>\$ 96,363</u>	<u>\$92,114</u>	<u>\$87,432</u>
Interest expense:			
Interest on long-term debt .....	\$ 80,871	\$77,232	\$83,405
Interest on notes payable to affiliate .....	9,806	8,555	773
Interest on other notes payable ....	3	-	279
Other .....	(3,335)	9,631	6,975
Total .....	<u>\$ 87,345</u>	<u>\$95,418</u>	<u>\$91,432</u>

Other interest expense in 1991 reflects a reduction in accrued interest expense of \$3,256,000 associated with a regulatory issue related to denial of basic service for nonpayment of interstate toll service provided by IXC's that has been settled and for which payments, including interest, have been remitted. Also reflected in the year end 1991 expense are reductions in interest expense of \$1,308,000 related to the 1991 settlement of a sales tax audit issue. These reductions are partially offset by \$528,000 of interest expense on customer deposits and \$324,000 in accrued interest expense associated with an over-collection of Anne Arundel County excise tax.

For the years ended December 31, 1991, 1990 and 1989, revenues generated from services provided to AT&T, principally network access, billing and collection services and sharing of network facilities, comprised approximately 13%, 14% and 15%, respectively, of total operating revenues.

The Company provides billing and collection services to interexchange carriers (IXCs). To provide these services, the Company and the IXC's entered into contracts under which the Company purchases the related customer accounts receivable. The largest purchaser of this service is AT&T. At December 31, 1991 and 1990, accounts receivable included \$41,484,000 and \$44,718,000, respectively (net of allowances for uncollectibles of \$5,506,000 and \$2,813,000, respectively), of such receivables purchased from AT&T. Accounts payable included corresponding amounts owed to AT&T for such receivables.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade receivables with AT&T, as noted above. Credit risk with respect to other trade receivables is limited due to the large number of customers included in the Company's customer base.

The amounts of drafts outstanding at December 31, 1991 and 1990 which were included in accounts payable were \$1,472,000 and \$10,591,000, respectively.

(9) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Dollars in Thousands				
Quarter	Total Operating Revenues	Net Operating Revenues	Income Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	Net Income (Loss)
<u>1991</u>				
1st .....	\$ 430,251	\$108,950	\$ 60,050	\$(197,824)
2nd .....	446,387	112,181	62,347	62,347
3rd .....	451,928	104,105	58,066	58,066
4th .....	450,788	103,362	54,934	54,934
Total .....	<u>\$1,779,354</u>	<u>\$428,598</u>	<u>\$235,397</u>	<u>\$ (22,477)</u>
<u>1990</u>				
1st .....	\$ 415,637	\$ 99,601	\$ 52,717	\$ 52,717
2nd .....	433,069	112,151	61,831	61,831
3rd .....	434,961	102,346	52,960	52,960
4th .....	432,734	90,652	49,835	49,835
Total .....	<u>\$1,716,401</u>	<u>\$404,750</u>	<u>\$217,343</u>	<u>\$ 217,343</u>

Results of operations for the first three quarters of 1991 have been restated for the effect of the adoption of Statement No. 106. As a result of the restatement, net operating revenues decreased \$1,953,000, \$1,960,000 and \$1,967,000, and income before extraordinary item and cumulative effect of change in accounting principle decreased \$1,255,000, \$1,259,000 and \$1,263,000, for the quarters ending March 31, June 30, and September 30, respectively.

(10) LITIGATION AND CONTINGENCIES

The Company is a party to antitrust actions and various other claims, legal actions and complaints arising in the ordinary course of business.

In the opinion of management, any monetary liability or financial impact to which the Company might be subject after final adjudication or settlement of these matters would not be material to the Company's financial position.

(11) REGULATORY MATTERS

On September 24, 1990, the Public Service Commission (PSC) approved a rate stability plan, effective October 1, 1990. The same order determined that a rate proceeding will be instituted by the PSC in the Spring of 1992.

The PSC has also directed that an audit be performed of services obtained by the Company from, and transactions engaged in by the Company with, affiliated entities. An independent auditing firm, Liberty Consulting Group, was selected by the PSC to conduct the audit and is expected to file its final report with the PSC in the Spring of 1992, in advance of the rate proceeding.

On July 19, 1991, the PSC issued an order establishing principles and guidelines for the Company's cost allocation manual to be used, among other purposes, in connection with implementing the agreement. The terms of that order, as modified by a PSC order dated October 25, 1991, require the Company to impute \$21.6 million in profit from services classified as competitive in the agreement (principally intrastate income from directory advertising) to its other-than-competitive category of services to determine if any refund of its earnings is required under the sharing provision of the agreement.

(12) TRANSACTIONS WITH AFFILIATES

The Company has contractual arrangements with an affiliated company, Bell Atlantic Network Services, Inc. (NSI), for the provision of various centralized corporate, administrative, planning, financial and other services. These arrangements serve to fulfill the common needs of Bell Atlantic's operating telephone companies on a centralized basis rather than duplicate efforts in each company. In connection with these services, the Company recognized \$290,717,000, \$253,419,000 and \$187,812,000 in operating costs for the years ended December 31, 1991, 1990 and 1989, respectively. In 1991, these charges included \$7,580,000, associated with NSI's adoption of Statement No. 106. In addition, the Company recognized \$76,651,000 representing the Company's proportionate share of NSI's accrued transition obligation under Statement No. 106. Included in these costs were \$25,684,000 in 1991, \$23,005,000 in 1990 and \$21,304,000 in 1989 billed to NSI and allocated to the Company by Bell Communications Research, Inc., another affiliated company owned jointly by the seven regional holding companies.

The Company is also a party to an agreement with BANFC, for the provision of short-term financing and cash management services. BANFC issues commercial paper to fund the working capital requirements of the operating telephone companies and NSI and invests funds on their behalf. In connection with this arrangement, the Company recognized \$9,806,000 and \$8,555,000 in 1991 and 1990, respectively, in interest expense.

The Company received \$37,811,000 in rent revenues from and paid \$36,010,000 in rent expense to affiliated companies as a result of various intercompany billing arrangements in 1991. These amounts were \$27,107,000 and \$27,280,000, respectively, in 1990, and \$20,722,000 and \$26,286,000, respectively, in 1989.

On January 27, 1992, the Company declared a dividend in the amount of \$42,400,000 which was paid to Bell Atlantic on January 31, 1992.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1991

(Dollars in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes	Balance at End of Period
Land . . . . .	\$ 22,258	\$ 947	\$ -	\$ -	\$ 23,205
Buildings . . . . .	326,908	28,432	4,029	-	351,311
Central office equipment . . . . .	1,874,127	211,308	146,366	-	1,939,069
Telephone instruments and related equipment . . . . .	75,879	7,621	4,584	-	78,916
Pole lines . . . . .	75,981	3,949	1,366	-	78,564
Cable and wiring . . . . .	1,817,786	114,235	51,052	-	1,880,969
Conduit . . . . .	221,995	19,080	268	-	240,807
Office equipment and furniture . . . . .	213,099	27,881	17,824	-	223,156
Vehicles and other work equipment . . . . .	92,112	12,222	5,577	-	98,757
Other . . . . .	62,410	4,590	1,225	-	65,775
Total in service (c). . . . .	4,782,555	430,265	232,291	-	4,980,529
Plant under construction . . . . .	85,776	(29,325)	-	(92)	56,359
Other . . . . .	2,651	73	1,033	-	1,691
Total plant, property and equipment . . . . .	<u>\$4,870,982</u>	<u>\$ 401,013</u>	<u>\$ 233,324</u>	<u>\$ (92)</u>	<u>\$5,038,579</u>

The notes on page F-25 are an integral part of this schedule.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1990

(Dollars in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes	Balance at End of Period
Land . . . . .	\$ 22,009	\$ 254	\$ 5	\$ -	\$ 22,258
Buildings . . . . .	305,378	22,870	1,340	-	326,908
Central office equipment . . . . .	1,782,087	194,131	102,064	(27)	1,874,127
Telephone instruments and related equipment . . . . .	69,652	8,712	2,485	-	75,879
Pole lines . . . . .	72,769	5,065	1,853	-	75,981
Cable and wiring . . . . .	1,719,372	121,241	22,827	-	1,817,786
Conduit . . . . .	207,169	14,991	165	-	221,995
Office equipment and furniture . . . . .	190,779	47,037	24,717	-	213,099
Vehicles and other work equipment . . . . .	84,204	13,636	5,728	-	92,112
Other . . . . .	53,944	9,297	565	(266)	62,410
Total in service (c). . . . .	4,507,363	437,234	161,749	(293)	4,782,555
Plant under construction . . . . .	101,331	(14,957)	-	(598)	85,776
Other . . . . .	1,570	1,081	-	-	2,651
Total plant, property and equipment. . .	<u>\$4,610,264</u>	<u>\$ 423,358</u>	<u>\$ 161,749</u>	<u>\$ (891)</u>	<u>\$ 4,870,982</u>

The notes on page F-25 are an integral part of this schedule.



THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND

SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

FOR THE YEAR ENDED DECEMBER 31, 1989

(Dollars in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost -Note(a)	Retirements -Note(b)	Other Changes	Balance at End of Period
Land . . . . .	\$ 21,899	\$ 110	\$ -	\$ -	\$ 22,009
Buildings . . . . .	289,782	19,418	3,822	-	305,378
Central office equipment . . . . .	1,671,797	246,896	137,957	1,351	1,782,087
Telephone instruments and related equipment . . . . .	66,847	9,020	4,864	(1,351)	69,652
Pole lines . . . . .	70,605	3,425	1,261	-	72,769
Cable and wiring . . . . .	1,633,852	103,528	18,008	-	1,719,372
Conduit . . . . .	196,771	10,727	329	-	207,169
Office equipment and furniture . . . . .	182,326	25,387	16,934	-	190,779
Vehicles and other work equipment . . . . .	77,037	11,898	4,731	-	84,204
Other . . . . .	53,339	4,921	4,316	-	53,944
Total in service (c). . . . .	4,264,255	435,330	192,222	-	4,507,363
Plant under construction . . . . .	94,981	6,721	-	(371)	101,331
Other . . . . .	1,230	340	-	-	1,570
Total plant, property and equipment . .	<u>\$4,360,466</u>	<u>\$ 442,391</u>	<u>\$ 192,222</u>	<u>\$ (371)</u>	<u>\$ 4,610,264</u>

The notes on page F-25 are an integral part of this schedule.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND

NOTES TO SCHEDULE V - PLANT, PROPERTY AND EQUIPMENT

- (a) These additions include (1) the original cost (estimated if not specifically determinable) of reused material, which is concurrently credited to Material and supplies, and (2) Allowance for funds used during construction. Transfers between Plant in service, Plant under construction and Other are also included in Column C.
- (b) Items of plant, property and equipment are deducted from the property accounts when retired or sold at the amount at which they are included therein, estimated if not specifically determinable.
- (c) The Company's provision for depreciation is principally based on the remaining life method and straight-line composite rates prescribed by regulatory authorities. The remaining life method provides for the full recovery of the remaining net investment in plant, property and equipment. In 1989, the Company implemented changes in depreciation rates approved by the FCC. This ruling will more closely align the Company's investment in plant, property and equipment with current estimates of its remaining economic useful life. For the years 1991, 1990 and 1989, depreciation expressed as a percentage of average depreciable plant was 6.27%, 6.34% and 6.93%, respectively.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND

SCHEDULE VI - ACCUMULATED DEPRECIATION

FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989

(Dollars in Thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions Charged to Expenses	Retirements	Other Changes -Note(a)	Balance at End of Period
Year 1991 . . . . .	\$1,736,402	\$305,377	\$236,695	\$ 869	\$1,805,953
Year 1990 . . . . .	\$1,598,736	\$293,004	\$161,654	\$6,316	\$1,736,402
Year 1989 . . . . .	\$1,487,434	\$302,934	\$189,459	(\$2,173)	\$1,598,736

- (a) Includes any gains or losses on disposition of plant, property and equipment. These gains and losses are amortized to depreciation expense over the remaining service lives of remaining net investment in plant, property and equipment. In 1991, the amount includes the impact of the deferral of Reserve Deficiency Amortization (RDA) under FCC price cap modifications. In 1990, the amount consisted primarily of the transfer of accumulated depreciation resulting from an inventory adjustment computed as a result of the October 31, 1989 Official Communication Inventory. In 1989, the amount relates principally to depreciation provision for vehicles and other work equipment charged initially to clearing accounts and apportioned to maintenance expense, telephone plant and other accounts on the basis of the usage of such equipment.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND  
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989  
(Dollars in Thousands)

Col. A	Col. B	Col. C		Col. D	Col. E
Description	Balance at Beginning of Period	Additions		Deductions -Note (b)	Balance at End of Period
		(1) Charged to Expenses	(2) to Other Accounts -Note (a)		
<u>Allowance for Uncollectible Accounts:</u>					
Year 1991 . . . . .	\$15,099	\$14,963	\$24,298	\$36,626	\$17,734
Year 1990 . . . . .	\$8,109	\$19,322	\$15,237	\$27,569	\$15,099
Year 1989 . . . . .	\$10,392	\$ 6,119	\$9,045	\$17,447	\$8,109

(a) Includes (i) amounts previously written off which were credited directly to this account when recovered; and (ii) accruals charged to accounts payable for anticipated uncollectible charges on purchases of accounts receivable from others which were billed by the Company.

(b) Amounts written off as uncollectible.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF MARYLAND  
SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989  
(Dollars in Thousands)

Col A.	Col. B
Item	Charged to Costs and Expenses
<u>Year 1991</u>	
Maintenance and repairs .....	\$276,994
<u>Year 1990</u>	
Maintenance and repairs .....	\$284,747
Advertising costs .....	\$ 19,066
<u>Year 1989</u>	
Maintenance and repairs .....	\$284,596

Advertising costs for 1991 and 1989 are not presented, as such amounts are less than 1 percent of total operating revenues.

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-K

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☒

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 1991

OR

☐

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from        to

Commission file number 1-6964

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

A Virginia  
Corporation

I.R.S. Employer Identification  
No. 54-0167060

600 East Main Street, Richmond, Virginia 23219  
Telephone Number 804 225-6300

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Securities registered pursuant to Section 12(b) of the Act:

See attached Schedule A.

Securities registered pursuant to Section 12(g) of the Act:

None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELL ATLANTIC CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

## THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Forty Year 7 1/4% Debentures, due June 1, 2012	New York Stock Exchange
Thirty-Five Year 8 5/8% Debentures, due April 1, 2009	New York Stock Exchange
Forty Year 9 1/4% Debentures, due December 15, 2015	New York Stock Exchange
Forty Year 9 1/2% Debentures, due April 15, 2019	New York Stock Exchange

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The Chesapeake and Potomac  
Telephone Company of Virginia

PART I

Item 1. Business

THE COMPANY

The Chesapeake and Potomac Telephone Company of Virginia (the Company) is incorporated under the laws of the Commonwealth of Virginia and has its principal offices at 600 East Main Street, Richmond, Virginia, 23219 (telephone number 804-225-6300). The Company is a wholly-owned subsidiary of Bell Atlantic Corporation (Bell Atlantic).

The Company presently serves a territory consisting of five complete Local Access and Transport Areas (LATAs) and part of a sixth LATA. These LATAs are generally centered on a city or other identifiable community of interest, and each LATA marks the boundary within which the Company may provide telephone service.

The Company provides two basic types of telecommunications services. First, the Company transports telecommunications traffic between subscribers located within the same LATA (intraLATA service), including both local and toll services. Second, the Company provides exchange access service, which links a subscriber's telephone or other equipment to the transmission facilities of interexchange carriers which, in turn, provide telecommunications service between LATAs (interLATA service). (See "Line of Business Restrictions.")

OPERATIONS

The Company's lines of business comprise Local Service, Network Access, Toll Service, and Directory, Billing and Other services. Local Service includes the provision of local exchange ("dial tone"), local private line, and public telephone services, including service for both Company-owned and customer-provided coin telephones. Among other services provided in this category are Centrex (central office-based switched telephone service enabling the subscriber to make both intercom and outside calls) and a variety of special and custom calling services. Network Access is the provision to interexchange carriers and local exchange carriers of access to the local exchange network for switched transmissions, and provision to subscribers (including end-users) of dedicated private lines for voice and data transmissions. Toll Service includes message toll service (MTS) (calling service beyond the local calling area) within LATA boundaries, and intraLATA Wide Area Telephone Service (WATS)/800 services (volume discount offerings for customers with highly concentrated demand). Directory, Billing and Other Services includes directory publishing (both Yellow Pages and White Pages), billing services for interexchange and other carriers and information service providers, and customer premises services such as inside wire installation and maintenance. The Company also provides various operator services.